



THE KAISER COMMISSION ON  
**Medicaid and the Uninsured**

# **Medicaid Financing 101**

## ***Presentation Slides***

**Monday, April 19, 2004**

Figure 1

## Medicaid's Role

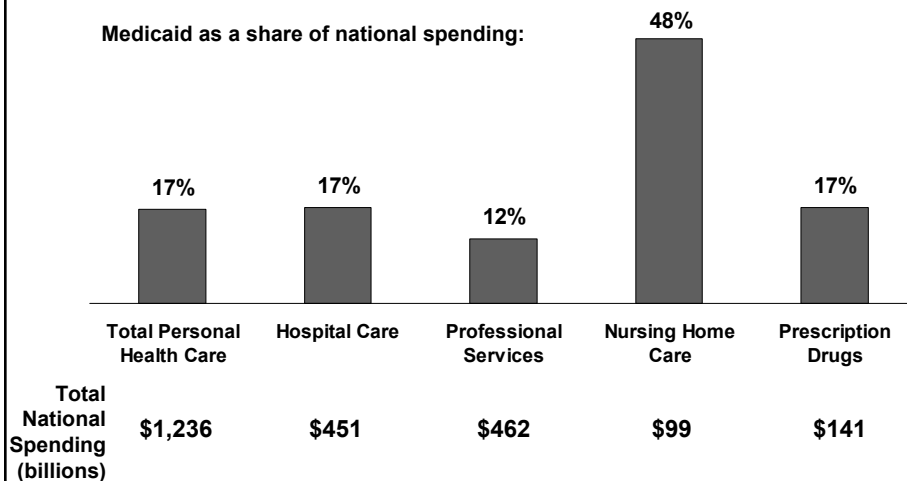
- Provides health and long-term care coverage for over 50 million people
  - Provides comprehensive, low-cost health insurance for 38 million people in low-income families, reducing the number of uninsured
  - Finances care for over 12 million elderly and persons with disabilities, including over 6 million Medicare beneficiaries
- Improves access to care and reduces disparities
- Guarantees entitlement to individuals and federal financing to states
- Provides \$175 billion in federal and \$120 billion in state and local funding of low-income populations
- Largest source of federal grant support to states, accounting for 43 percent of all federal grant funds to states in 2002

K A I S E R C O M M I S S I O N O N  
**Medicaid and the Uninsured**

Figure 2

## Medicaid's Role in the Health System, 2001

Medicaid as a share of national spending:

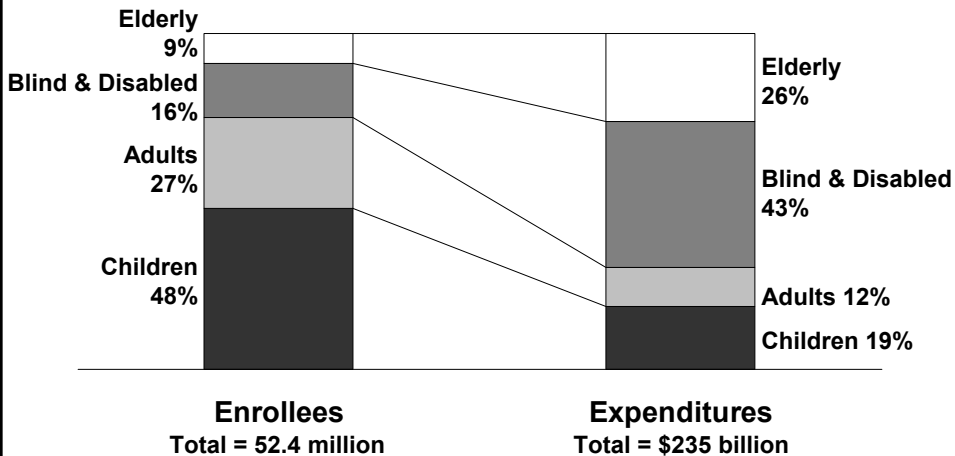


SOURCE: Levit, et al, 2003. Based on National Health Care Expenditure Data, Centers for Medicare and Medicaid Services, Office of the Actuary.

K A I S E R C O M M I S S I O N O N  
**Medicaid and the Uninsured**

Figure 3

## Medicaid Enrollees and Expenditures by Enrollment Group, 2003



Expenditure distribution based on CBO data that includes only federal spending on services and excludes DSH, supplemental provider payments, vaccines for children, administration, and the temporary FMAP increase. Total expenditures assume a state share of 43% of total program spending.

SOURCE: Kaiser Commission estimates based on CBO and OMB data, 2004.

**K A I S E R C O M M I S S I O N O N  
Medicaid and the Uninsured**

Figure 4

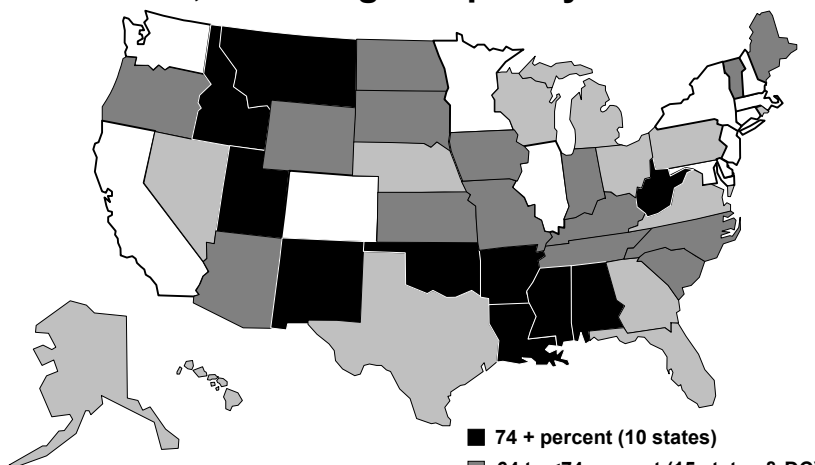
## Key Aspects of Current Medicaid Financing System

- **The federal government and states share financial responsibility for Medicaid**
  - States decide how much to spend within federal rules
  - Federal government reimburses a set share of spending on covered groups and services based on the state's matching rate; pays for at least half of all Medicaid spending in every state
- **Federal matching funds are an entitlement to states**
  - No predetermined limits on federal matching funds
  - Medicaid spending not subject to annual appropriations process
- **Federal fiscal relief package temporarily increased Medicaid matching rates through June**

**K A I S E R C O M M I S S I O N O N  
Medicaid and the Uninsured**

Figure 5

## Federal Medical Assistance Percentages (FMAP), FY 2004, Including Temporary Fiscal Relief



NOTE: The percentages listed reflect the temporary increase in federal Medicaid matching rates enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003, which is effective for the first 3 calendar quarters of FY 2004.

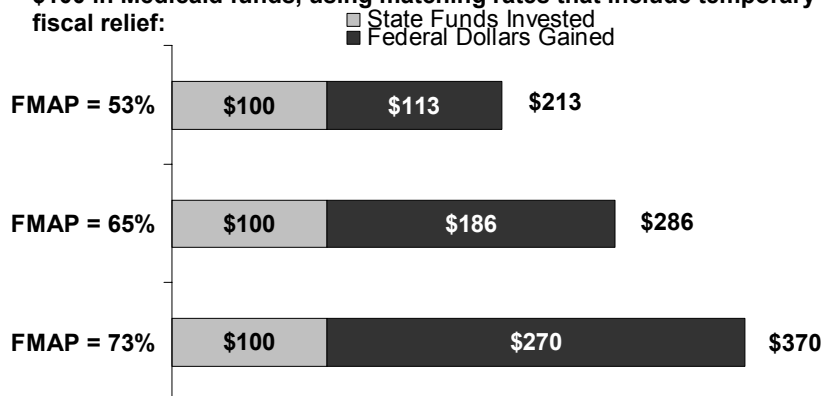
SOURCE: Federal Register, June 17, 2003.

K A I S E R C O M M I S S I O N O N  
Medicaid and the Uninsured

Figure 6

## Impact of Federal Matching Funds on Total Medicaid Spending

Federal Medicaid spending provided when states spend a hypothetical \$100 in Medicaid funds, using matching rates that include temporary fiscal relief:

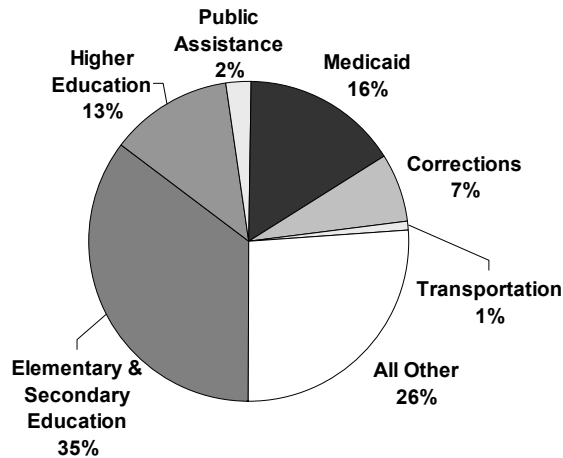


SOURCE: Kaiser Commission on Medicaid and the Uninsured.

K A I S E R C O M M I S S I O N O N  
Medicaid and the Uninsured

Figure 7

## State Medicaid Spending as a Percent of General Fund Expenditures, 2002



Total State General Fund Spending = \$496 billion

SOURCE: National Association of State Budget Officers, 2002 State Expenditure Report, November 2003.

K A I S E R C O M M I S S I O N O N  
**Medicaid and the Uninsured**

Figure 8

## Recent Developments in Medicaid Financing

- Expiration of fiscal relief in June will mean that to maintain their Medicaid spending states will have to put up additional state funds to offset the reduction in federal matching funds
- Medicare drug law will cover Medicare/Medicaid “dual eligibles,” but provides only modest fiscal assistance to states
- Administration’s 2003 proposal to cap federal Medicaid funding is on the back burner
- Recently increased emphasis on Medicaid “program integrity”
- Federal government and some states are focusing on waivers

K A I S E R C O M M I S S I O N O N  
**Medicaid and the Uninsured**

Figure 9

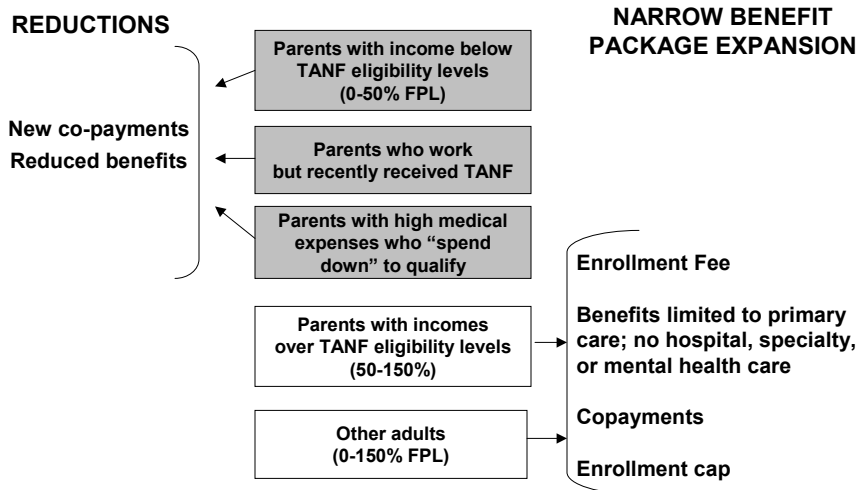
## Overview of Section 1115 Waivers

- HHS Secretary can permit states to receive federal Medicaid funds for expenditures not otherwise allowed by federal law
- Health Insurance Flexibility and Accountability (HIFA) initiative
  - Encouraged states to seek waivers to expand coverage within existing resources
  - New flexibility to change benefits, eligibility, and cost sharing for new and current beneficiaries
- Longstanding policy of “budget neutrality” for the federal government
  - Budget neutrality methodology is subject to negotiation and can vary state to state

K A I S E R C O M M I S S I O N O N  
Medicaid and the Uninsured

Figure 10

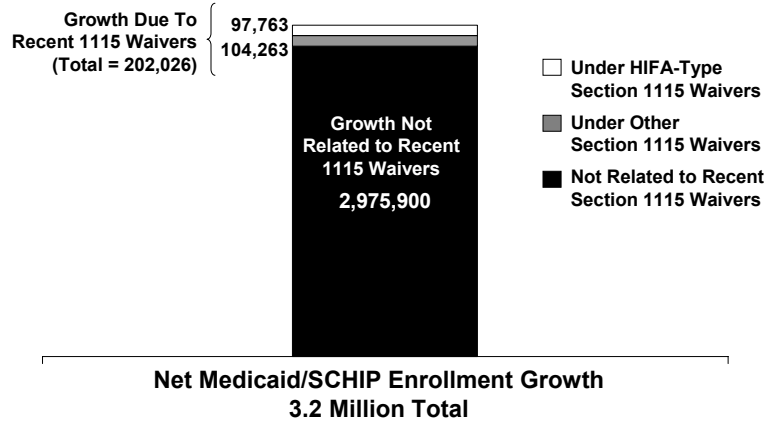
## Financing the Utah Waiver



K A I S E R C O M M I S S I O N O N  
Medicaid and the Uninsured

Figure 11

## The Role of Recent Section 1115 Waivers in Medicaid and SCHIP Enrollment Growth



Note: Section 1115 waiver growth only includes comprehensive Section 1115 waivers approved since January 2001; other Medicaid/SCHIP growth is for the period from December 2001-December 2002.

SOURCE: Mann, C., Artiga, S. and J. Guyer, "Assessing the Role of Recent Waivers in Providing New Coverage," KCMU, December 2003.

**K A I S E R C O M M I S S I O N O N**  
**Medicaid and the Uninsured**

Figure 12

## Policy Implications

- Without new financial resources states cannot significantly expand coverage.
- Waiver financing places a state at risk for costs beyond the "budget neutrality" cap.
- The primary impact of some waivers is reductions rather than expansions in coverage.
- Recent waivers have affected every key element of the Medicaid program, and these changes are occurring outside the federal legislative process.

**K A I S E R C O M M I S S I O N O N**  
**Medicaid and the Uninsured**

Figure 13

## Medicaid's Financing Structure: Current Strengths

- Uncapped federal matching funds key to the entitlement to coverage
- Provides incentives for states to preserve and expand coverage
- Helps states manage the risk of unpredictable changes in health care costs, economic conditions, demographics, public health
- Funds health care services, such as mental health care, services for people with developmental disabilities, and maternal and child health services
- State and federal contributions provide incentives to manage costs

K A I S E R C O M M I S S I O N O N  
**Medicaid and the Uninsured**

Figure 14

## Medicaid's Financing Structure: Current Challenges

- Although the risk is shared between the federal government and the states, health care spending, especially for the low-income and disabled population is difficult to predict
- States have difficulty meeting program spending needs during economic downturns, when state revenues fall
- Medicaid maximization has raised questions about accountability for federal funds

K A I S E R C O M M I S S I O N O N  
**Medicaid and the Uninsured**